

**OUTLOOK FOR STATE REVENUES**

**PRESENTED TO**

**WAYS AND MEANS COMMITTEE**

**SOUTH CAROLINA HOUSE OF REPRESENTATIVES**

**BY**

**WILLIAM GILLESPIE, PH.D.**

**CHIEF ECONOMIST, STATE OF SOUTH CAROLINA**

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## **INTRODUCTION**

THANKS FOR INVITING ME TO BRIEF YOU ON SOUTH CAROLINA'S ECONOMY, STATE REVENUE TRENDS AND THE OUTLOOK FOR REVENUES NEXT FISCAL YEAR.

## **ECONOMIC CONDITIONS DURING FY 07-08**

BEFORE TALKING ABOUT CONDITIONS FOR NEXT FISCAL YEAR, LET'S REVIEW LAST FISCAL YEAR TO GET A BETTER UNDERSTANDING OF HOW WE GOT INTO THE CURRENT SITUATION. AS FOR THE STATE'S ECONOMY, ALL OUR NUMBERS SAY THAT IT GREW SLOWLY UNTIL THE END OF LAST FISCAL YEAR BUT WENT INTO RECESSIONARY CONDITIONS THIS PAST SUMMER. WE DID NOT SEE THE USUAL SEASONAL JUMP IN EMPLOYMENT AND EARNINGS THAT OCCURS DURING THE SUMMER. WHEREAS BEFORE THE SUMMER THERE WERE MORE PEOPLE WORKING IN SOUTH CAROLINA THAN THE PREVIOUS YEAR, THAT TURNED AROUND IN JUNE. BY OCTOBER THERE WERE 1.1%, OR 21,000 FEWER PEOPLE WORKING IN THE STATE THAN THE PREVIOUS YEAR.(GRAPH 1) MOREOVER, THE NUMBER OF UNEMPLOYED SPIKED UPWARD BY 33,000 SINCE JUNE TO REACH A RECORD 173,000.(GRAPH 2)

THE FACTORS UNDERLYING THE RECESSION HAVE BEEN PRETTY OBVIOUS. AS YOU ALL KNOW, BECAUSE OF HIGHER FUEL PRICES, CONSUMERS WERE FORCED TO TIGHTEN THEIR BELTS. GASOLINE PRICES

ROSE FROM \$3 PER GALLON TO \$4 PER GALLON LAST SPRING. (GRAPH 3) AS A RESULT, NON-FUEL EXPENDITURES WENT INTO THE TANK. SPENDING ON SERVICES ALSO TOOK A HIT. WHEREAS THERE IS USUALLY SOME INCREASE IN SERVICE JOBS DURING THE SUMMER, THIS PAST SUMMER THERE WAS A DECLINE IN THE SERVICE SECTOR.

TO MAKE MATTERS WORSE, THE FALLOUT FROM THE SUBPRIME MORTGAGE DEBACLE CAME TO SOUTH CAROLINA. THERE WASN'T MUCH MONEY AVAILABLE FOR MAKING NEW REAL ESTATE LOANS. POTENTIAL NEW HOME BUYERS WERE VERY PICKY IN BUYING THAT UPGRADE HOME. AS A RESULT, THE REAL ESTATE MARKET FELL INTO A DEEP SLUMP. AND WITH THAT THE CONSTRUCTION AND NEW RESIDENTIAL DEVELOPMENT SECTORS ALSO FELL INTO A RECESSION. THIS PAST SUMMER, RESIDENTIAL BUILDING PERMITS IN SOUTH CAROLINA WERE DOWN OVER 40% FROM A YEAR EARLIER. (GRAPH 4)

THE STOCK MARKET DIDN'T IGNORE THESE ECONOMIC PROBLEMS. OVER THE LAST FIVE MONTHS, THE S&P INDEX FELL FROM 1400 TO UNDER 800, WHICH WAS OVER 40%.

NOT ALL WAS GLOOM AND DOOM LAST FISCAL YEAR. THE INDUSTRIAL SECTOR IN THE STATE HELD UP, BECAUSE OF THE LOW VALUE OF THE DOLLAR RELATIVE TO THE WORLD'S MORE SIGNIFICANT

CURRENCIES. THE VALUE OF THE DOLLAR FELL A LITTLE OVER 40% AGAINST THE EURO (GRAPH 5) AND 20% AGAINST THE YEN (GRAPH 6), SINCE THE BEGINNING OF THE 2001 RECESSION. AND A TREND THAT YOU DON'T HEAR MUCH ABOUT IN THE NEWS MEDIA IS THAT THE VALUE OF THE DOLLAR FELL 16% AGAINST THE CHINESE YUAN (GRAPH 7), SINCE THE U.S. PRESSURED THE CHINESE IN 2005 INTO ALLOWING A LIMITED AMOUNT OF DEPRECIATION OF THE YUAN. NOT ONLY DID SC PRODUCERS BOOST THEIR EXPORTS, BUT THEY ALSO GOT SOME RELIEF FROM IMPORTS.

AN IMPORTANT SEGMENT OF OUR ECONOMY THAT I NEVER SEE MENTIONED IN THE NEWS MEDIA IS THAT THE FEDERAL GOVERNMENT RAN OVER A \$400 BILLION DEFICIT. SOUTH CAROLINA BUSINESSES THAT HAVE MILITARY OR OTHER KINDS OF FEDERAL BUSINESS DID WELL LAST FISCAL YEAR.

ONE FAVORABLE SPIN-OFF FROM HIGHER OIL PRICES AND A LOWER VALUE OF THE DOLLAR WAS ITS IMPACT ON AGRICULTURAL PRICES THIS PAST SEASON. GENERALLY SPEAKING, FARM PRICES WERE STRONG.

#### **STATE REVENUE COLLECTIONS LAST FISCAL YEAR**

HOW DID THESE ECONOMIC CONDITIONS IMPACT THE STATE'S REVENUE COLLECTIONS? ABOUT 84 PERCENT OF OUR COLLECTIONS

DERIVE FROM INDIVIDUAL INCOME TAXES AND SALES TAXES. THE STATE TAKES ITS CUT OFF THE TOP, SO THAT AS SOON AS THE WORKERS IN THE STATE FEEL THE PINCH, WE SEE THE RESULTS ALMOST IMMEDIATELY.

REVENUE COLLECTIONS DECLINED \$222 MILLION, OR 3.1%, FROM THE PREVIOUS YEAR (GRAPH 8). THEY DID NOT, HOWEVER, REFLECT RECESSIONARY CONDITIONS. TO REFRESH YOUR MEMORY, THE STATE CUT THE SALES TAX FOR FOOD FROM 3% TO 0% BEGINNING IN NOVEMBER 2007, AND CUT THE LOWEST INCOME TAX BRACKET FROM 2.5% TO 0% FOR TAX YEAR 2006. WITHOUT THOSE TAX CUTS, WE ESTIMATE THAT THE STATE'S GENERAL FUND REVENUES WOULD HAVE GROWN 1%. EVEN THOUGH RESULTS WERE SLIGHTLY POSITIVE, THAT WAS QUITE A DRAMATIC DECLINE FROM THE 8% GROWTH RATE THE STATE EXPERIENCED IN THE PREVIOUS FISCAL YEAR.

HIGHER FUEL PRICES HAD A DRAMATIC IMPACT ON THE SALES TAX. THE SALES TAX FOR THE GENERAL FUND DECLINED 6.3% FROM THE PREVIOUS YEAR. WE ESTIMATE THAT WITHOUT THE FOOD TAX CUT, OUR SALES TAX WOULD HAVE GROWN 2%. IN AN AVERAGE YEAR IT GROWS ABOUT 4% TO 5%.

THE STATE'S INCOME TAX WAS DOWN 0.6% LAST FISCAL YEAR. IT WOULD HAVE BEEN UP EXCEPT FOR THE STATE CUT IN THE INCOME TAX

AND THE FEDERAL STIMULUS REFUND PROGRAM THAT ENCOURAGED NEARLY 90,000 TAXPAYERS TO FILE THEIR RETURNS BY APRIL 15, TO GET THEIR STIMULUS CHECKS. WE ESTIMATE THAT WITHOUT THE RATE CUT AND THOSE EXTRA REFUNDS, OUR INCOME TAX WOULD HAVE BEEN UP 2.2%. OUR INCOME TAXES FROM EMPLOYER WITHHOLDINGS, WHICH ARE THE BREAD AND BUTTER OF STATE REVENUES, WERE UP 4.0%.

RESULTS FOR OUR SALES AND INCOME TAX COLLECTIONS REFLECTED THE DICHOTOMY IN OUR ECONOMY. EVEN THOUGH CONSUMERS HAD TO SPEND MUCH MORE ON FUEL, WHICH SLAUGHTERED THE SALES TAXES, AND THE HOUSING MARKET WAS A DISASTER, WHICH WEAKENED CONSTRUCTION, OTHER SECTORS OF OUR ECONOMY HELD UP, WITH THE RESULT THAT MORE PEOPLE WERE WORKING AT THE END OF LAST FISCAL THAN THE PREVIOUS YEAR.

NONETHELESS, AT THE CLOSE OF THE BOOKS FOR FY 07-08, STATE REVENUES WERE \$205 MILLION, OR 2.9%, BELOW THE BEA'S ESTIMATE FOR THE APPROPRIATION ACT. BECAUSE THE GENERAL ASSEMBLY ADDED MEASURES AFTER THE ACT WAS PASSED THAT TOOK ANOTHER \$28 MILLION OUT OF OUR REVENUE STREAM, THE TOTAL REVENUE SHORTFALL WAS \$234 MILLION. THE STATE COVERED THAT BY USING \$124 MILLION FROM THE CAPITAL RESERVE FUND AND \$92 MILLION FROM THE STATE'S GENERAL RESERVE FUND, AND THE BALANCE FROM AGENCY

CARRY FORWARDS. THIS REDUCED THE STATE'S GENERAL FUND RESERVE TO \$95 MILLION FOR THE CURRENT FISCAL YEAR.

**FISCAL YEAR 2008-2009 STATE REVENUE SITUATION THUS FAR**

WHAT ABOUT THE CURRENT FISCAL YEAR? BECAUSE OF THE SHORTFALL LAST FISCAL YEAR, OUR STARTING LEVEL FOR THIS YEAR WAS A LOT LOWER THAN THE BEA HAD ANTICIPATED. THE BOARD OF ECONOMIC ADVISORS, THEREFORE, MET THIS PAST JULY, THE FIRST MONTH INTO THE FISCAL YEAR, AND LOWERED ITS ESTIMATE FOR THE CURRENT FISCAL YEAR BY 2%. THAT LOWERED THE GROWTH RATE NEEDED TO MEET THE BEA'S ESTIMATE TO 3.4%.

THE BUDGET AND CONTROL BOARD, AT ITS AUGUST MEETING, SEQUESTERED THE STATE'S CAPITAL RESERVE TO COVER THE BEA'S 2% CUT. THE NET EFFECT OF THIS WAS TO PRECLUDE THE USE OF THE CAPITAL RESERVE IN THE UPCOMING FY 09-10 BUDGET. MOREOVER, BY AUGUST, THE FINANCIAL AND OIL MARKETS HAD DETERIORATED MORE FOLLOWING JULY, SO THE BUDGET AND CONTROL BOARD CUT STATE APPROPRIATIONS BY 3%, WHICH BY LAW MUST BE APPLIED ACROSS THE BOARD. THIS AMOUNTED TO A TOTAL CUT OF 5% AND WAS 3% MORE THAN THE BEA CUT.

AFTER REVIEWING ACTUAL COLLECTIONS FOR THE FIRST QUARTER, THE BEA DETERMINED THAT REVENUES WERE 4.7% BEHIND SCHEDULE TO MEET THE BEA'S REVISED ESTIMATE. NOT TO BE OUTDONE BY THE B&C BOARD, THE BEA MET OCTOBER 8, 2008 AND LOWERED ITS ESTIMATE FOR THIS FISCAL YEAR BY ANOTHER 6%, WHICH AMOUNTED TO 3% MORE THAN THE CUTS IMPLEMENTED BY THE B&C BOARD.

AT ITS OCTOBER MEETING, THE BEA ALSO DETERMINED THAT REVENUES WERE MORE THAN 4 PERCENT BELOW ITS ESTIMATE FOR THE FIRST QUARTER. BEFORE GOING HOME IN JUNE, THE GENERAL ASSEMBLY PASSED A RESOLUTION PROVIDING THAT THE SPEAKER OF THE HOUSE AND THE SENATE PRO TEM COULD CALL THE GENERAL ASSEMBLY BACK INTO SESSION IF REVENUES WERE MORE THAN FOUR PERCENT BELOW THE QUARTERLY ESTIMATE. SINCE REVENUES WERE 4.7% BELOW THE ESTIMATE, THE LEADERSHIP CALLED THE GENERAL ASSEMBLY BACK INTO SESSION TO DEAL WITH THE SHORTFALL.

I HAVEN'T STUDIED THE DETAILS OF THE CUTS BY THE GENERAL ASSEMBLY. GENERALLY SPEAKING, IT UPPED THE ANTE AND ADOPTED A PLAN THAT CUT APPROPRIATIONS BY 1% MORE THAN THE BEA'S REDUCTION, LESS THE B&C BOARD ACROSS THE BOARD CUTS.



## **OUTLOOK BALANCE OF FISCAL YEAR 2008-09**

THE OUTLOOK IS NOT GOOD FOR THE BALANCE OF THIS FISCAL YEAR. THE STOCK MARKET IS CERTAINLY WARNING US THAT THE ECONOMY IS HEADED FOR ROUGHER WATERS, EVEN WITH THE \$700 BILLION BAILOUT OF FINANCIAL INSTITUTIONS AND LOWER INTEREST RATES BY THE FEDERAL RESERVE. ALL THE NEWS COMING OUT OF WASHINGTON AND NEW YORK HAS BEEN PESSIMISTIC. MORE IMPORTANTLY, LAYOFFS IN SOUTH CAROLINA HAVE BEGUN TO SPREAD. BMW, WHICH HAS BEEN THE BELL WEATHER FOR ECONOMIC STRENGTH IN THE STATE ANNOUNCED THAT IT WAS REDUCING ITS CONTRACT EMPLOYEES BY 500. THAT WAS PARTICULARLY TROUBLING NEWS FOR THE BEA.

THE BEA MET OCTOBER 29 WITH ITS ADVISORY COMMITTEE OF LEADING ECONOMISTS FROM THROUGHOUT THE STATE. ALMOST ALL OF THEM REPORTED RECESSIONARY CONDITIONS IN THE STATE, WITH LITTLE HOPE FOR IMPROVEMENT IN THE NEAR TERM.

ON NOVEMBER 7, THE BEA MET TO REVIEW THE SITUATION AGAIN AND TO SET THE PRELIMINARY REVENUE ESTIMATE FOR NEXT FISCAL YEAR. THE BEA FOUND THAT ACTUAL REVENUE GROWTH FOR THIS FISCAL YEAR, WHICH WAS \$113 MILLION, OR -5.0 %, BELOW THE SAME PERIOD LAST YEAR (GRAPH 9), WAS SLIGHTLY LESS THAN ITS REVISED ESTIMATE FOR THIS FISCAL YEAR. GIVEN ALL THE NEGATIVE ECONOMIC NEWS THAT

HAS COME OUT IN THE LAST 2 MONTHS, THE BEA DECIDED THAT ECONOMIC CONDITIONS HAD NOT CEASED DETERIORATING AND LOWERED ITS ESTIMATE ANOTHER 2%. THE SUM TOTAL OF THE BEA'S CUTS FOR THIS FISCAL YEAR WAS ALMOST 10%.

THE STATE HAS NOT YET HAD TIME TO RESPOND TO THIS LATEST PROJECTION BY THE BEA.

#### **OUTLOOK FOR FY 09-10 REVENUES**

AS FOR NEXT YEAR'S STATE BUDGET, GIVEN THE DISMAL SITUATION RIGHT NOW, THE BEA SET ITS ESTIMATE FOR NEXT FISCAL YEAR THE SAME AS ITS REDUCED ESTIMATE FOR THIS FISCAL YEAR. THE BEA WILL REVIEW THESE ESTIMATES FEBRUARY 10, 2009 WHEN THE WAYS AND MEANS COMMITTEE MEETS ON THE BUDGET. (GRAPH 10)

#### **EDUCATION IMPROVEMENT ACT PENNY**

WHAT ABOUT THE ONE PENNY SALES TAX THAT GOES DIRECTLY TO THE SCHOOL DISTRICTS UNDER THE EDUCATION IMPROVEMENT ACT? EIA APPROPRIATIONS THIS FISCAL YEAR, FY 08-09, WERE LESS THAN THEY WERE IN FY 05-06, THREE YEARS AGO. SO HOW DID THIS HAPPEN BECAUSE RETAIL SALES HAVE GROWN AT LEAST 10% SINCE THEN? THIS OCCURRED BECAUSE OF THE CUT IN THE SALES TAX ON FOOD. IN THE YEARS OF THE

CUTS THE STATE HELD HARMLESS THE EIA. THIS YEAR'S BUDGET DOES NOT INCLUDE A HOLD HARMLESS PROVISION, SO ESSENTIALLY THE SCHOOL DISTRICTS HAVE EATEN THE FULL 5% CUT IN THE FOOD TAX ON ITS ONE PENNY.

MOREOVER, THE BEA JUST CUT THE EIA ESTIMATE FOR THIS FISCAL YEAR TO AN AMOUNT THAT IS \$85 MILLION, OR 13% LESS THAT IT WAS THREE YEARS AGO.

#### **HOME OWNER PROPERTY TAX CUT**

THE RECESSION HAS ALSO CREATED A PROBLEM WITH THE FUNDING OF THE NEW PROPERTY TAX BILL, ACT 388. FIRST, LET ME GIVE YOU AN UPDATE ON THE STATUS OF ACT 388. AS YOU ALL KNOW, THE GENERAL ASSEMBLY EXEMPTED HOMEOWNERS FROM SCHOOL OPERATING TAXES AND ENACTED A ONE PENNY INCREASE IN THE SALES TAX ON ALL ITEMS, EXCEPT FOOD AND ACCOMMODATIONS, TO REIMBURSE THE SCHOOL DISTRICTS. ANY COUNTY WHOSE SCHOOL DISTRICTS DID NOT RECEIVE AT LEAST A TOTAL OF \$2.5 MILLION FROM THE FUND WAS GUARANTEED \$2.5 MILLION.

IT'S IMPORTANT TO REMEMBER THAT ACT 388 DID NOT EXEMPT HOMEOWNERS FROM SCHOOL BOND MILLAGE.

THE NEW ONE PENNY SALES TAX BEGAN JUNE 1, 2007 AND WAS ALLOCATED TO THE HOMESTEAD EXEMPTION FUND TO BE USED TO REIMBURSE THE SCHOOL DISTRICTS. RATHER THAN HAVING A \$53.2 MILLION SURPLUS AT THE END OF FY 07-08 AS WE HAD PROJECTED THREE YEARS AGO WHEN THE BILL WAS VOTED ON BY THE GENERAL ASSEMBLY, THE FUND FINISHED FY 07-08 WITH A \$14.5 MILLION DEFICIT. THIS FUND DEFICIT WAS COVERED BY A TRANSFER FROM THE GENERAL FUND AND HELPED CONTRIBUTE TO THE STATE'S DEFICIT.

SEVERAL FACTORS CONTRIBUTED TO THIS \$67.7 MILLION SHORTFALL FROM THE ESTIMATE. (CHART 11) THE ONE PENNY SALES TAX WAS \$32 MILLION UNDER THE PROJECTION, REFLECTING THE RUN-UP IN OIL PRICES. THE DISBURSEMENTS FROM THE FUND TO THE SCHOOL DISTRICTS WERE \$37.7 MILLION MORE THAN PROJECTED, OF WHICH \$16.6 MILLION WAS CAUSED BY EXTRAORDINARY SCHOOL OPERATING MILLAGE INCREASES IN 2006 AND 2007. ANOTHER \$10.9 MILLION WAS DUE TO REASSESSMENTS MORE THEN PROJECTED, \$4.4 MILLION FOR A LEGISLATIVE ADJUSTMENT IN 2007, AND \$5.8 MILLION FOR COUNTY PERMISSION TO RE-FILE TAX BILLS. IN SHORT, THE SCHOOL DISTRICTS INCREASED SCHOOL OPERATING TAXES 15% PER YEAR OVER TWO YEARS WHEREAS WE HAD ONLY BUILT IN 12% PER YEAR.

ACT 388 PROVIDED THAT ANY EXCESS LEFT FROM THE PENNY AFTER THE SCHOOLS GET THEIR ALLOCATIONS WILL BE SENT TO THE COUNTIES THE FOLLOWING YEAR FOR ADDITIONAL HOMEOWNER TAX RELIEF. SINCE THE FUND WAS SHORT, THERE WAS NO ALLOCATION TO THE COUNTIES.

WE JUST FINISHED SENDING OUT OUR ESTIMATES OF ALLOCATIONS TO THE SCHOOL DISTRICTS FOR FY 08-09, THE SECOND YEAR OF THE PROGRAM. THE ACTUAL ALLOCATION TO A SCHOOL DISTRICT IN THE SECOND YEAR IS EQUAL TO ITS FIRST YEAR ACTUAL ALLOCATED AMOUNT, PLUS ITS PERCENTAGE SHARE OF THE GROWTH IN THE "TRUST FUND" POT. THE GROWTH IN THE POT EQUALS GROWTH IN THE SOUTHEASTERN CPI AND POPULATION. THERE WILL BE SOME SHIFT IN THE DISTRIBUTION TO THE RURAL SCHOOL DISTRICTS BASED ON THE POVERTY ADJUSTMENT ADDED TO THE BASE YEAR REIMBURSEMENT. THE CPI WAS 2.9% AND POPULATION GROWTH WAS 1.8%, FOR A TOTAL OF 4.7%, OR \$25 MILLION, FOR GROWTH IN THE POT FOR FY 08-09.

BASED ON THE BEA'S NOVEMBER 7 ESTIMATE OF A 4.3% DECLINE IN THE SALES TAX FOR THIS FISCAL YEAR, WE CURRENTLY ARE PROJECTING THAT THE HOMESTEAD EXEMPTION TRUST FUND WILL BE \$36 MILLION SHORT THIS FISCAL YEAR.

WE JUST ISSUED OUR PRELIMINARY ESTIMATE OF THE PROPERTY TAX TRUST FUND FOR FY 09-10, THE THIRD YEAR OF THE PROGRAM. RIGHT NOW WE EXPECT THE REIMBURSEMENT AMOUNT TO THE SCHOOL DISTRICTS TO GROW 6.9 PERCENT, BASED ON GROWTH IN THE CPI OF 4.7% AND POPULATION OF 1.8%. WE WILL REVISE THIS ESTIMATE IN FEBRUARY WITH FINAL CPI AND POPULATION FIGURES. BASED ON THE BEA'S PROJECTION OF NO GROWTH IN THE SALES TAX FOR FY 09-10, WE CURRENTLY ESTIMATE THAT THE POT WILL BE \$70 MILLION SHORT TO MEET PROJECTED OBLIGATIONS NEXT FISCAL YEAR. UNDER CURRENT LAW, THAT AMOUNT WILL BE TAKEN OUT OF THE STATE'S GENERAL FUND.

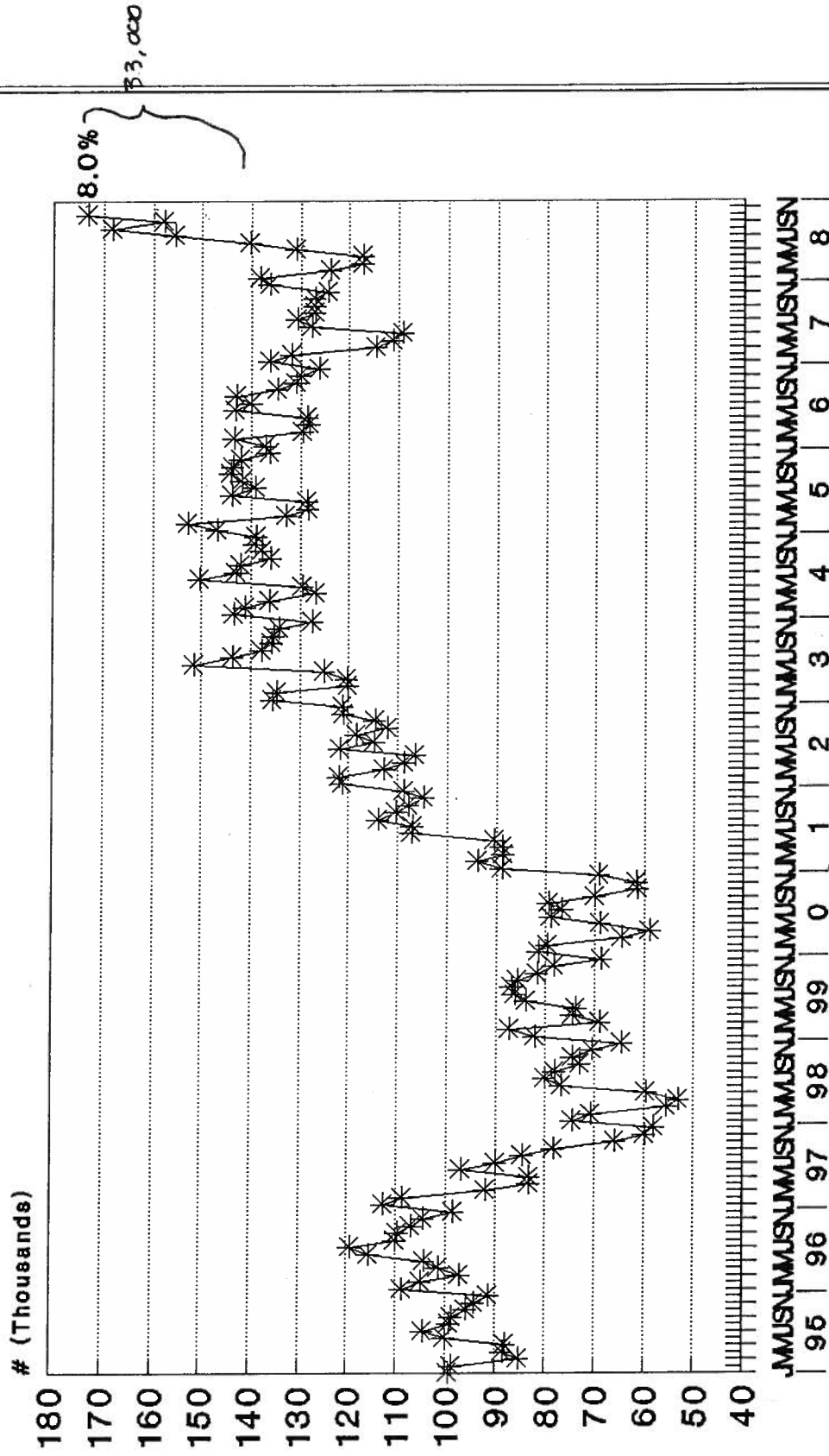
#### **SOUTH CAROLINA EDUCATION LOTTERY FUND**

LET ME END WITH SOME GOOD NEWS. THE SOUTH CAROLINA LOTTERY EDUCATION FUND IS ON TARGET WITH THIS YEAR'S ESTIMATE. AT THE RECOMMENDATION OF THE DIRECTOR OF THE LOTTERY, THE BEA DID NOT REVISE ITS ESTIMATE FOR THIS YEAR AND KEPT THE ESTIMATE THE SAME FOR NEXT FISCAL YEAR.

## (Persons Employed, 000's)



# TOTAL UNEMPLOYMENT IN SC (UNADJUSTED)

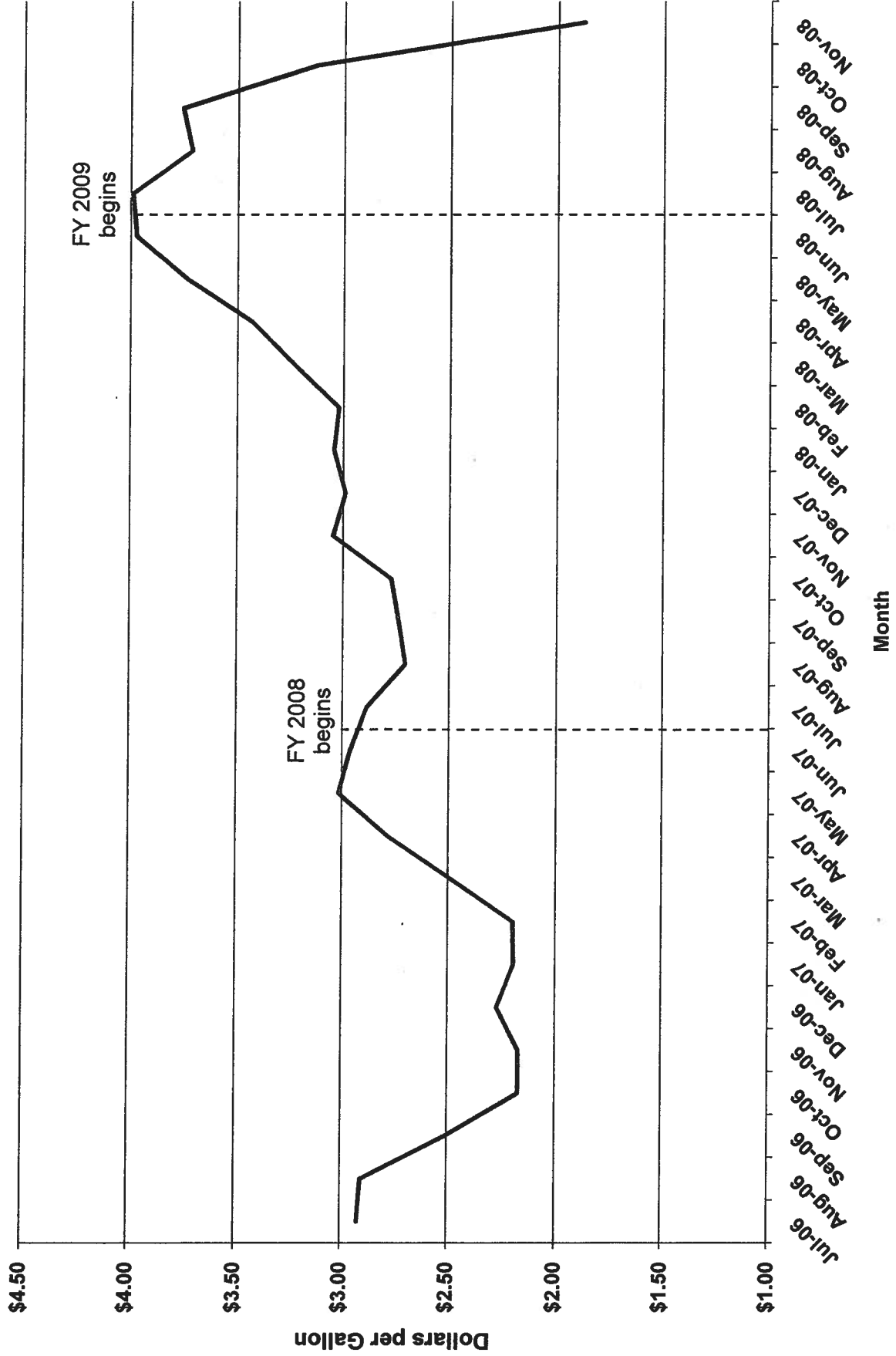


Source: SC Employment Security Commission



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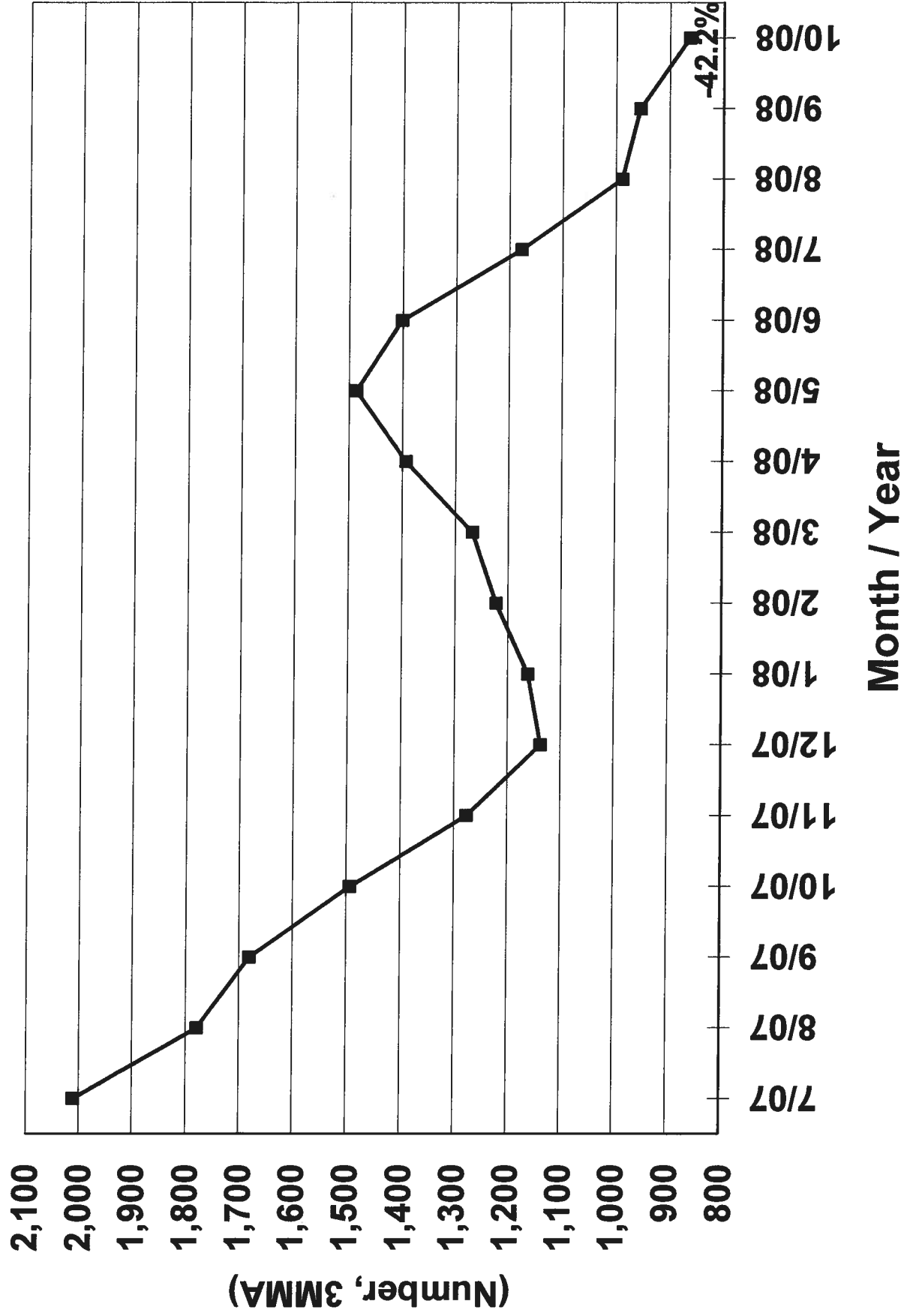
# Monthly Lower Atlantic Regular All Formulations Retail Gasoline Prices



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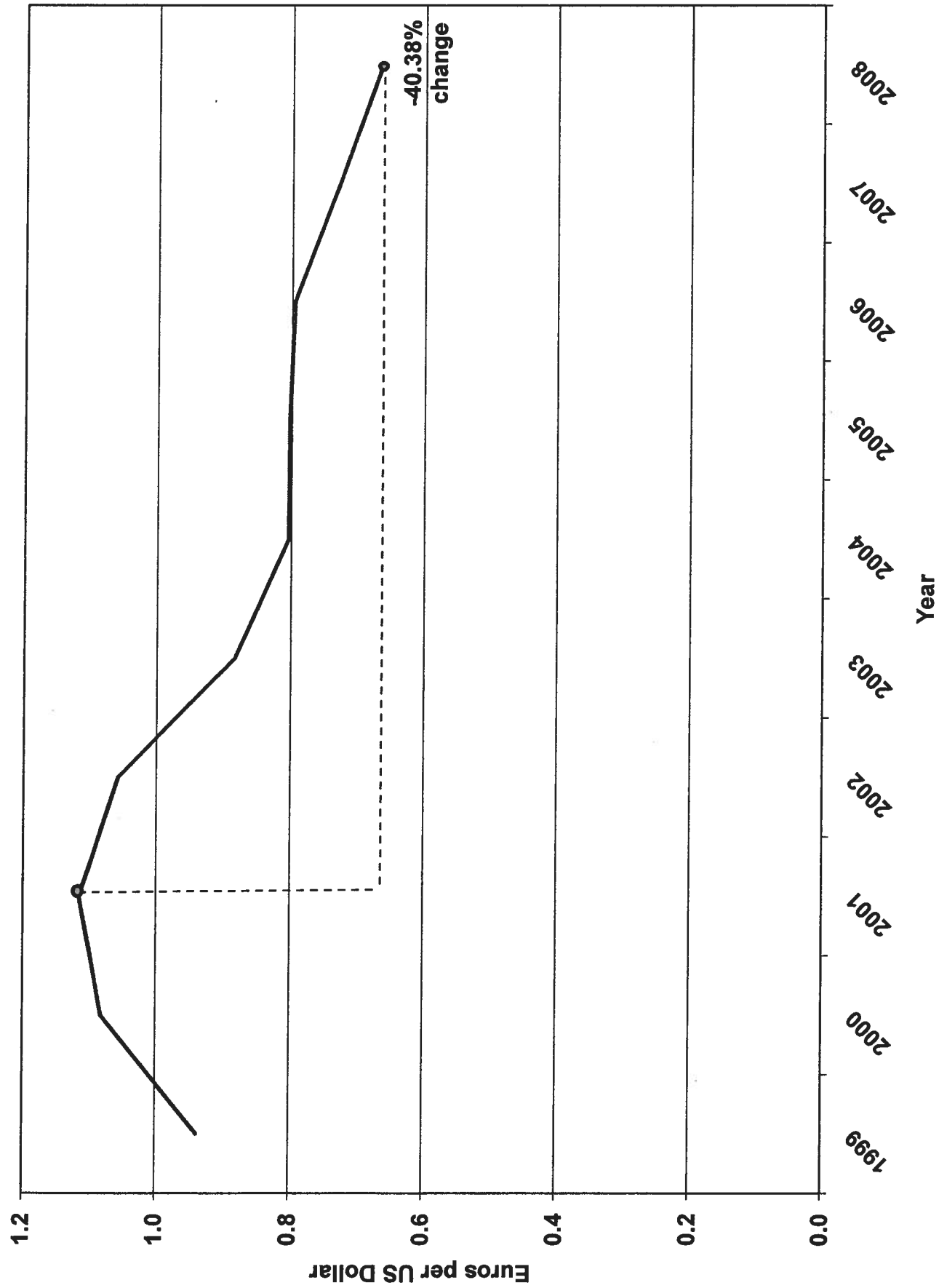
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# South Carolina Building Permits

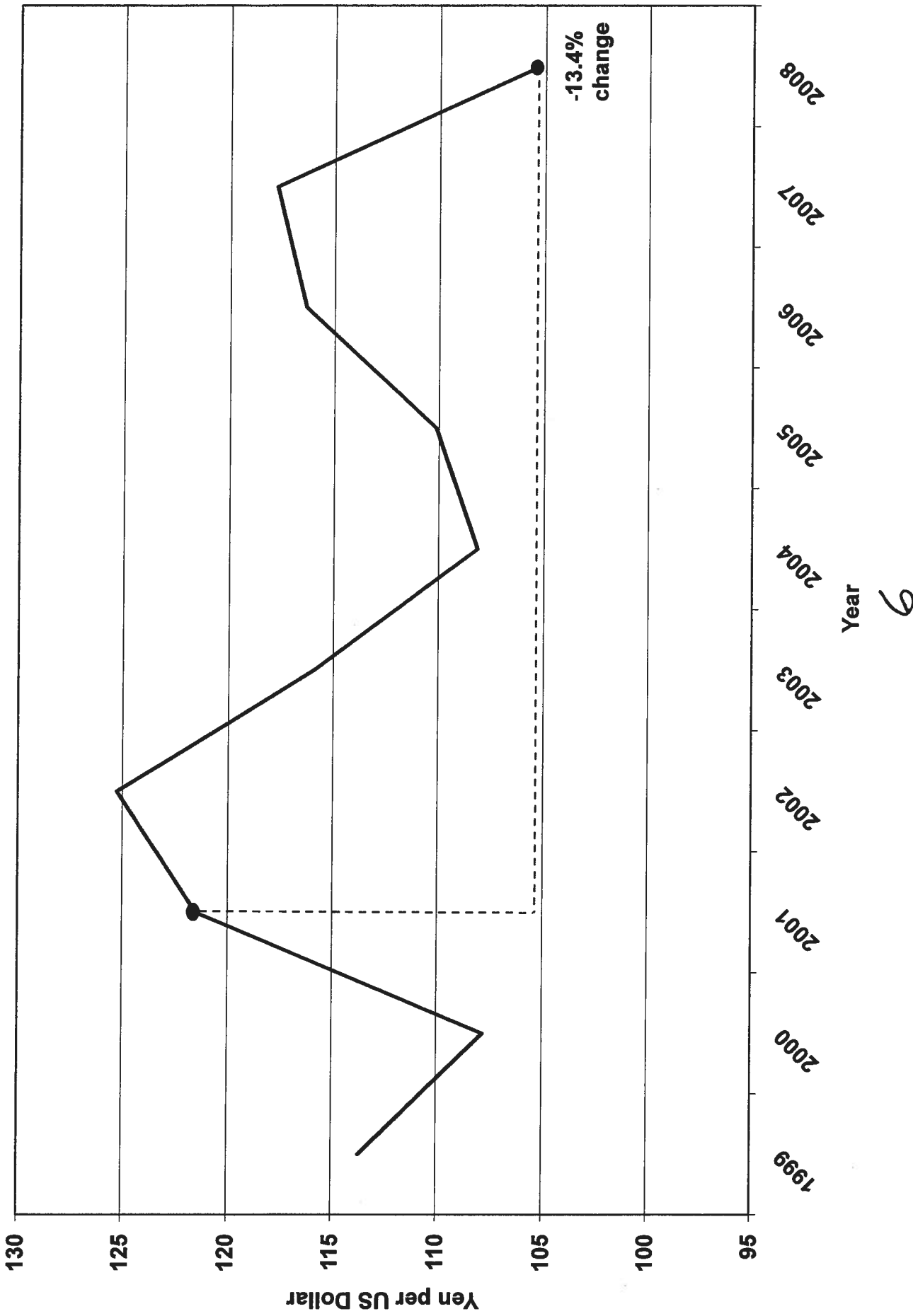


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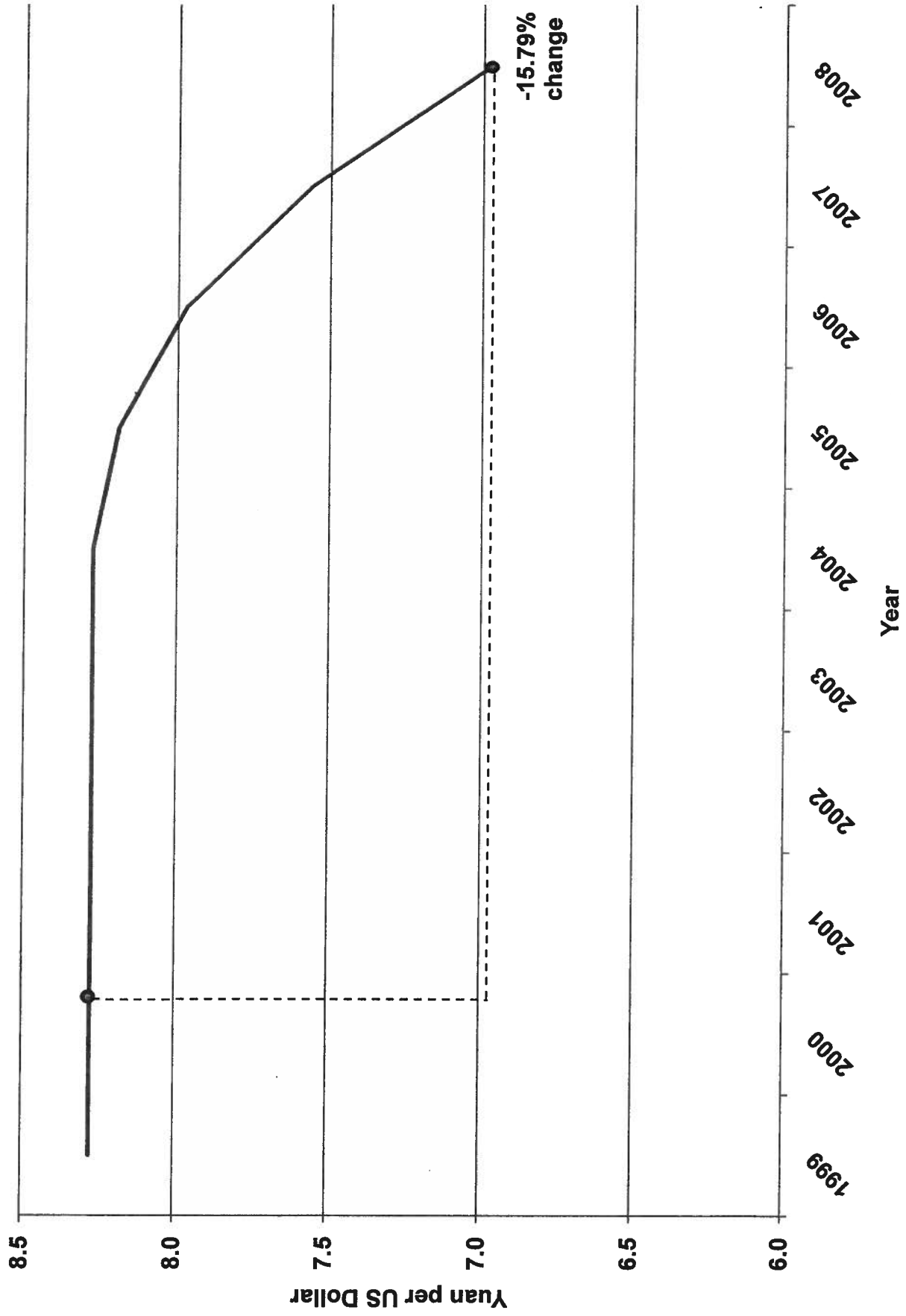
# Value of US Dollar Compared to Euro



# Value of US Dollar Compared to Japanese Yen



Value of US Dollar Compared to Chinese Yuan



-15.79%  
change

**"GROSS" GENERAL FUND REVENUE SUMMARY: FINAL FY 2006-07 AND FY 2007-08**

REVENUE CATEGORIES	1/ FINAL FY 2006-07	1/ FINAL FY 2007-08	\$ CHANGE	% CHANGE
Retail Sales and Use Tax 2/	\$2,609,151,501	\$2,444,198,397	(\$164,953,104)	(6.3)
Excise Tax, Casual Sales 2/	22,070,729	21,366,645	(704,084)	(3.2)
Individual Income Tax	3,347,490,746	3,327,774,540	(19,716,206)	(0.6)
Corporation Income Tax	300,608,201	312,554,756	11,946,555	4.0
Admissions Tax	24,496,704	24,750,450	253,746	1.0
Admissions Tax - Bingo	3,268,419	2,947,491	(320,928)	(9.8)
Aircraft Tax	5,904,422	6,145,104	240,682	4.1
Alcoholic Liquor Tax	56,065,761	56,652,160	586,399	1.0
Bank Tax	25,569,805	19,313,042	(6,256,763)	(24.5)
Beer and Wine Tax	99,568,753	100,610,827	1,042,074	1.0
Business License Tax (Tobacco)	31,672,210	31,072,833	(599,377)	(1.9)
Coin-Operated Device Tax	1,146,711	1,597,573	450,862	39.3
Corporation License Tax	65,161,042	74,406,043	9,245,001	14.2
Departmental Revenue	44,195,692	43,908,550	(287,142)	(0.6)
Documentary Tax 2/	56,198,586	43,184,911	(13,013,675)	(23.2)
Earned on Investments	128,756,090	123,633,239	(5,122,851)	(4.0)
Electric Power Tax 2/	14,145,254	0	(14,145,254)	(100.0)
Estate and Gift Taxes	1,542,120	343,510	(1,198,610)	(77.7)
Insurance Tax	167,497,694	159,613,827	(7,883,867)	(4.7)
Motor Transport Fees	4,427	3,875	(552)	(12.5)
Motor Vehicle Licenses	32,534,443	24,285,770	(8,248,673)	(25.4)
Petroleum Inspection Tax	1,623,876	187	(1,623,689)	(100.0)
Private Car Lines Tax	2,917,749	3,595,122	677,373	23.2
Public Service Authority	14,993,000	15,720,000	727,000	4.8
Retailers License Tax	884,264	847,161	(37,103)	(4.2)
Savings and Loan Assoc. Tax	2,985,050	3,356,902	371,852	12.5
Workers Comp. Insurance Tax	14,473,981	13,559,040	(914,941)	(6.3)
Circuit/Family Court Fines	9,977,637	10,640,349	662,712	6.6
Debt Service Transfers	2,148,612	1,722,838	(425,774)	(19.8)
Indirect Cost Recoveries	15,736,374	15,837,054	100,680	0.6
Mental Health Fees	3,600,000	3,400,000	(200,000)	(5.6)
Parole and Probation Fees	3,402,305	3,392,808	(9,497)	(0.3)
Unclaimed Property Fund	15,000,000	12,000,000	(3,000,000)	(20.0)
<b>Gross General Fund Revenue 3/</b>	<b>\$7,124,792,158</b>	<b>\$6,902,435,004</b>	<b>(\$222,357,154)</b>	<b>(3.1)</b>

1/: Data displayed in BEA format, which includes "net" Property Tax Relief funds of \$504,644,634 in FY07 and \$507,846,331 in FY08, and excludes Other Source revenues, net of transfers, of \$38,355,384 in FY07 and \$79,485 in FY08.

2/: Excludes Education Improvement Act (1%), Accommodations (2%), Homestead Exemption (1%) and any Local Option sales tax.

3/: Data format corresponds to BEA Official Revenue Estimate.

Source: S. C. Board of Economic Advisors (BEA) 08/13/08/mgd

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## GENERAL FUND REVENUE CUMULATIVE SUMMARY: FISCAL YEARS 2007-08 &amp; 2008-09

JULY - OCTOBER

TABLE 2

REVENUE CATEGORIES	FY 2007-08	FY 2008-09	\$ CHANGE	% CHANGE
Retail Sales and Use Tax 1/	\$669,534,910	\$597,461,535	(\$72,073,375)	(10.8)
Excise Tax, Casual Sales 1/	6,002,804	5,172,350	(830,454)	(13.8)
Individual Income Tax	1,280,800,330	1,274,221,140	(6,579,190)	(0.5)
Corporation Income Tax	85,487,605	49,193,033	(36,294,572)	(42.5)
Admissions Tax 2/	1,987,625	1,459,747	(527,878)	(26.6)
Admissions Tax - Bingo 2/	588,459	956,275	367,816	62.5
Aircraft Tax	37,482	764,119	726,637	1,938.6
Alcoholic Liquor Tax 2/	13,021,825	12,923,461	(98,364)	(0.8)
Bank Tax	7,482,093	2,688,604	(4,793,489)	(64.1)
Beer and Wine Tax 2/	26,303,601	27,713,670	1,410,069	5.4
Business License Tax (Tobacco) 2/	7,792,447	7,674,681	(117,766)	(1.5)
Coin-Operated Device Tax	843,627	670,705	(172,922)	(20.5)
Corporation License Tax	10,952,262	18,324,583	7,372,321	67.3
Departmental Revenue 3/	8,164,561	6,568,957	(1,595,604)	(19.5)
Documentary Tax 2/	13,725,813	9,862,529	(3,863,284)	(28.1)
Earned on Investments **	44,643,961	29,041,306	(15,602,655)	(34.9)
Electric Power Tax 2/	0	0	0	0.0
Estate and Gift Taxes	103,364	36,135	(67,229)	(65.0)
Insurance Tax	41,738,734	62,746,256	21,007,522	50.3
Motor Transport Fees	675	550	(125)	(18.5)
Motor Vehicle Licenses	6,695,213	3,161,624	(3,533,589)	(52.8)
Petroleum Inspection Tax	0	0	0	0.0
Private Car Lines Tax	467,273	494,390	27,117	5.8
Public Service Authority	0	0	0	0.0
Retailers License Tax	273,265	273,286	21	0.0
Savings and Loan Assoc. Tax	797,796	480,620	(317,176)	(39.8)
Workers Comp. Insurance Tax	2,498,849	2,338,437	(160,412)	(6.4)
Circuit/Family Court Fines	2,339,425	3,488,556	1,149,131	49.1
Debt Service Transfers	132,003	50,185	(81,818)	(62.0)
Indirect Cost Recoveries	2,741,621	3,918,306	1,176,685	42.9
Mental Health Fees	0	0	0	0.0
Parole and Probation Fees	138,806	678,560	539,754	388.9
Unclaimed Property Fund	3,000,000	3,000,000	0	0.0
<b>Gross General Fund Revenue 4/</b>	<b>\$2,238,296,429</b>	<b>\$2,125,363,600</b>	<b>(\$112,932,829)</b>	<b>(5.0)</b>

1/: Excludes Education Improvement Act (1%), Accommodations (2%), Homestead Exemption Fund (1%) and Local Option taxes. Modified accrual since FY'91.

2/: End-of-year modified accrual since FY 1992-93 except for Documentary Tax, which began in FY 2001-02.

3/: Includes current and former "non-recurring revenue" shown separately in prior fiscal years.

4/: Data format corresponds to BEA Official Revenue Estimate. FY'09 Appropriation Act offset FY'07 Property Tax Relief balance carried forward of +\$5,145,216.

\*\*: Results for earnings are subject to maturity differentials. NA: Not applicable. #: Sign change. \*: Greater than +/- 9,999.

PERSONAL INCOME GROWTH  
FY09 - (3.6)%; FY10 - 0.0%

GENERAL FUND REVENUE FORECAST  
FISCAL YEARS FY2006-07 TO FY2009-10  
(DOLLARS)

REVENUE CATEGORIES	FINAL FY 2006-07	FINAL FY 2007-08	11/07/08 ESTIMATE FY 2008-09	11/07/08 ESTIMATE FY 2009-10	PERCENT CHANGE FY06/FY07	PERCENT CHANGE FY07/FY08	PERCENT CHANGE FY08/FY09	PERCENT CHANGE FY09/FY10
RETAIL SALES TAX 1/ EXCISE, CASUAL SALES TAX	2,609,151,501	2,444,198,397	2,338,682,405	2,338,682,405	5.1	-6.3	-4.3	0.0
INDIVIDUAL INCOME TAX	22,070,729	21,366,645	20,670,780	20,670,780	1.1	-3.2	-3.3	0.0
CORPORATION INCOME TAX	3,347,490,746	3,327,774,540	3,194,154,075	3,194,154,075	11.8	-0.6	-4.0	0.0
	300,608,201	312,554,756	247,893,717	247,893,717	5.1	4.0	-20.7	0.0
SALES AND INCOME TAXES	6,279,321,177	6,105,894,338	5,801,400,977	5,801,400,977	8.5	-2.8	-5.0	0.0
ADMISSIONS/BINGO TAX	33,505,171	34,067,084	34,173,324	34,173,324	7.0	1.7	0.3	0.0
ADMISS. TAX TRANSFER TO COMMERCE	(5,740,048)	(6,369,143)	(6,706,708)	(6,706,708)				
AIRCRAFT TAX	5,904,422	6,145,104	5,115,477	5,115,477	28.9	4.1	-16.8	0.0
ALCOHOLIC LIQUOR TAX	56,065,761	56,652,160	56,237,031	57,361,772	8.0	1.0	-0.7	2.0
BANK TAX	25,569,805	19,313,042	15,425,001	15,425,001	-9.4	-24.5	-20.1	0.0
BEER AND WINE TAX	99,568,753	100,610,827	104,825,325	107,385,376	1.6	1.0	4.2	2.4
BUSINESS LICENSE TAX	31,672,210	31,072,833	29,670,954	29,670,954	-1.0	-1.9	-4.5	0.0
COIN-OPERATED DEVICES	1,146,711	1,597,573	1,284,316	1,517,694	-2.8	39.3	-19.6	18.2
CORPORATION LICENSE TAX	65,161,042	74,406,043	86,918,514	92,132,150	-8.9	14.2	16.8	6.0
DEPARTMENTAL REVENUE 3/ DOCUMENTARY TAX	44,195,692	43,908,550	43,992,056	43,992,056	-10.0	-0.6	0.2	0.0
	75,205,284	57,966,115	37,966,115	37,966,115	-11.6	-22.9	-34.5	0.0
LESS: CONSERVATION BANK TRUST FUND	(19,006,698)	(14,781,204)	(9,491,529)	(9,491,529)				
EARNED ON INVESTMENTS	128,756,090	123,633,239	77,000,000	72,000,000	84.3	-4.0	-37.7	-6.5
ELECTRIC POWER TAX	28,145,254	27,874,092	27,386,399	27,934,127	13.6	-1.0	-1.7	2.0
LESS: TRANSFER TO NON-FED HGWY FUND	(14,000,000)	(27,874,092)	(27,386,399)	(27,934,127)				
ESTATE AND GIFT TAXES	1,542,120	343,510	0	0	-97.5	-77.7	-100.0	
LESS: FEDERAL CHANGE TO ESTATE TAX	0	0	0	0				
INSURANCE PREMIUM TAX	159,060,984	161,103,334	163,788,749	172,602,958	12.8	1.3	1.7	5.4
INSURANCE LICENSE TAX	23,089,265	11,934,114	26,386,461	13,193,231	121.5	-48.3	121.1	-50.0
INSURANCE RETALIATORY & OTHER TAX	4,852,160	6,757,323	5,000,000	5,000,000	1.4	39.3	-26.0	0.0
LESS: INSURANCE CREDITS	(19,504,715)	(20,180,944)	(17,196,097)	(17,196,097)	13.4	3.5	-14.8	0.0
MOTOR TRANSPORT FEES	4,427	3,875	20,000	10,000	-58.1	-12.5	416.1	-50.0
MOTOR VEHICLE LICENSES	32,534,443	24,285,770	15,350,886	15,657,904	-36.3	-25.4	-36.8	2.0
PETROLEUM INSPECTION TAX	8,116,825	8,170,043	9,374,473	9,374,473	-7.9	0.7	14.7	0.0
LESS: TRANSFER TO NON-FED HGWY FUND	(6,492,949)	(8,169,856)	(9,374,473)	(9,374,473)				
PRIVATE CAR LINES TAX	2,917,749	3,595,122	4,034,169	4,034,169	-13.5	23.2	12.2	0.0
PUBLIC SERVICE AUTHORITY	14,993,000	15,720,000	16,340,234	16,340,234	0.3	4.8	3.9	0.0
RETAILERS LICENSE TAX	884,264	847,161	883,722	883,722	6.2	-4.2	4.3	0.0
SAVINGS & LOAN TAX	2,985,050	3,356,902	4,002,478	4,002,478	-12.7	12.5	19.2	0.0
WORKERS COMP. INSURANCE	14,473,981	13,559,040	14,655,680	14,655,680	10.1	-6.3	8.1	0.0
CIRCUIT/FAMILY COURT FINES	9,977,637	10,640,349	10,664,363	10,664,363	3.3	6.6	0.2	0.0
DEBT SERVICE TRANSFERS	2,148,612	1,722,838	237,911	188,108	-0.6	-19.8	-86.2	-20.9
INDIRECT COST RECOVERIES	15,736,374	15,837,054	16,679,391	16,679,391	-12.6	0.6	5.3	0.0
MENTAL HEALTH FEES	3,600,000	3,400,000	3,200,000	3,200,000	-5.3	-5.6	-5.9	0.0
PAROLE / PROBATION FEES	3,402,305	3,392,808	3,392,808	3,392,808	0.6	-0.3	0.0	0.0
UNCLAIMED PROPERTY FUND	15,000,000	12,000,000	12,000,000	12,000,000	0.0	-20.0	0.0	0.0
CONFORMITY TO IRS CODE				(2,691,739)				
OTHER BASE SOURCES	845,470,981	796,540,666	755,850,631	753,158,891	5.7	-5.8	-5.1	-0.4
TOTAL GENERAL FUND REVENUE	7,124,792,158	6,902,435,004	6,557,251,608	6,554,559,868	8.2	-3.1	-5.0	-0.0
APPROPRIATION ACT REVENUE	6,589,516,369	7,107,825,466	7,246,362,115		10.5	7.9	1.9	
LESS: TAX RELIEF TRUST FUND	(515,396,670)	(520,192,424)	(531,097,956)	(542,519,869)	0.3	0.9	2.1	2.2
PLUS: TAX RELIEF FUND CARRYFORWARD	10,752,036	13,797,464	5,145,216	1,451,372				
LESS: HOMESTEAD EXEMPT. FUND SHORTFALL		(14,545,708)	(35,667,763)	(70,298,694)				
EXCLUDING TRUST FUNDS	6,084,871,735	6,586,884,798	5,995,631,105	5,943,192,677	11.5	8.3	-9.0	-0.9
CAPITAL RESERVE FUND (2%) - BEG. BAL.	111,821,213	124,520,532	0	127,644,852	9.3	11.4	-100.0	
GENERAL RESERVE FUND (3%) - BEG. BAL.	167,731,819	186,780,797	95,122,617		9.3	11.4	-49.1	
TOTAL RESERVES	279,553,032	311,301,329	95,122,617		9.3	11.4	-69.4	
REVENUE EXCESS / SHORTAGE FROM ACT	535,275,789	(205,390,462)	(689,110,507)					
EDUCATION IMPROVEMENT ACT 2/ EIA FUND	648,381,569	635,302,264	574,644,107	574,644,107	-1.7	-2.0	-9.5	0.0
EIA HOLD HARMLESS	625,101,707	607,243,384	573,544,107	573,544,107	-4.8	-2.9	-5.5	0.0
EIA INTEREST	19,309,722	26,000,000						
	3,970,139	2,058,880	1,100,000	1,100,000	38.5	-48.1	-46.6	0.0
S.C. EDUCATION LOTTERY FUND (NET)	273,416,933	266,128,271	252,400,000	252,400,000	-8.9	-2.7	-5.2	0.0
HOMESTEAD EXEMPTION FUND								
TOTAL REVENUE AVAILABLE		550,484,062	549,896,607	548,690,585				

1/: Excludes (1%) Education Improvement Act and (2%) Accommodations Taxes.

2/: Includes interest earnings.

3/: Includes former Dept. of Agriculture agency revenue other than the Petroleum Inspection Tax now shown separately.

\*: Figure is net of General Fund revenue estimate

Source: S. C. Board of Economic Advisors

/11/07/08



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## Fund Revenue and Disbursements

Actual Revenue	550.5
Actual Disbursements	<u>565.0</u>
Actual Fund Balance	-14.5

## Actual Sales Tax versus Projected

One Penny Trust Fund Revenue Projected	582.5
One Penny Trust Fund Revenue Actual	<u>550.5</u>
Sales Tax Deficit	32.0

## Actual Disbursements versus Projected

Projected Tier III Disbursements	527.3
Actual Tier III Submitted to DOR	<u>565.0</u>
Actual Disbursements versus Projected	37.7

### Breakdown of Actual disbursements versus projected disbursements

\$100,000 Bump Amount	4.4
Refiles	5.8
Increase Due to Millage	16.6
Increase due to increase in value	<u>10.9</u>
TOTAL	37.7

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